




Endowment Fund Investment Board



Endowment Fund Investment Board (EFIB)

Joint Meeting with the Land Board


December 2003



Earnings Reserve and Spending Policy

Hypothetical 100% Gain


Fund	Market Value	% of Total
Earnings Reserve	27,651,797	4.16%
Corpus	637,298,038	95.84%
Total	664,949,835	
Endowment Doubles	1,329,899,670	
Gain to Earnings Reserve	27,651,797	
Gain to Corpus	637,298,038	



Earnings Reserve and Spending Policy


Actual Gain FYTD

Fund	Market Value	% of Total
Earnings Reserve	27,651,797	4.16%
Corpus	637,298,038	95.84%
Total	664,949,835	
Endowment Up 9+%	723,572,289	
Gain to Earnings Reserve	2,437,802	\$5-6 Million
Gain to Corpus	56,184,652	Shortfall




Earnings Reserve and Spending Policy
Payout Analysis @ 7.5%

Date	Corpus	Earnings Reserve	Payout Shortfall
6/04	607,131,168	25,277,759	0.00%
6/05	698,294,530	29,107,533	0.00%
6/06	755,927,333	27,504,474	0.00%
6/07	818,170,760	23,701,180	0.00%
6/08	885,393,662	16,390,462	0.00%
6/09	957,994,396	(1,292,444)	-1.94%
6/10	1,036,403,188	(24,363,382)	-33.84%
6/11	1,121,084,684	(29,647,168)	-38.06%
6/12	1,212,540,699	(34,780,737)	-41.28%
6/13	1,311,313,195	(40,967,126)	-44.96%



Earnings Reserve and Spending Policy
Payout Analysis @ 4.5%

Date	Corpus	Earnings Reserve	Payout Shortfall
6/04	607,131,168	25,277,759	0.00%
6/05	698,294,530	48,516,018	0.00%
6/06	755,927,333	69,079,168	0.00%
6/07	818,170,760	91,325,776	0.00%
6/08	885,393,662	114,019,943	0.00%
6/09	957,994,396	130,762,984	0.00%
6/10	1,036,403,188	145,658,553	0.00%
6/11	1,121,084,684	158,818,891	0.00%
6/12	1,212,540,699	170,443,951	0.00%
6/13	1,311,313,195	179,561,727	0.00%



Earnings Reserve and Spending Policy
Payout Analysis @ 4.5% vs 7.5%

1. Total Payout: \$416,294,636 (\$110 million less over period)
2. Meet Payout: 100% of time (versus 50% of time, worse for Public Schools)
3. Earnings Reserve Level: 11.5% of total (versus 0%)
4. Payout in FY05: \$29 million (versus \$51 million)

Earnings Reserve and Spending Policy Endowment Fund Universe

- OK Regents for Higher Education: 3% of a 3-year moving average
- TX Higher Education: 0% until fund reaches \$2 billion (currently \$379 million)
- WA State Board: 4.5% of moving average (several different policies, 4.5% was the highest)
- University of MN: 5-6% of 3 year moving average

Spending Policy – Percentage Payout

- ✓ **Currently:** 7.5% of three year moving average
- ✓ **Recommendation:** 4.0% of three year moving average
- ✓ **Justification:**

Long-term Investment Reasoning:

Asset Class	Allocation	Contribution from U.S. Bonds	Expected Return
Equities	70%	6.6%	
Fixed Income	30%	1.7%	
Total Expected Return			8.3%
Less Inflation			-3.5%
Less Expenses			-0.3%
Total Net Expected Return			4.5%

Decrease in Timber:

Decrease in revenue expected to be \$23 million, equating to 3.4%	
Current spending policy	7.5%
Less Timber reduction	2.4%
Total	4.1%
